HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
St. John's CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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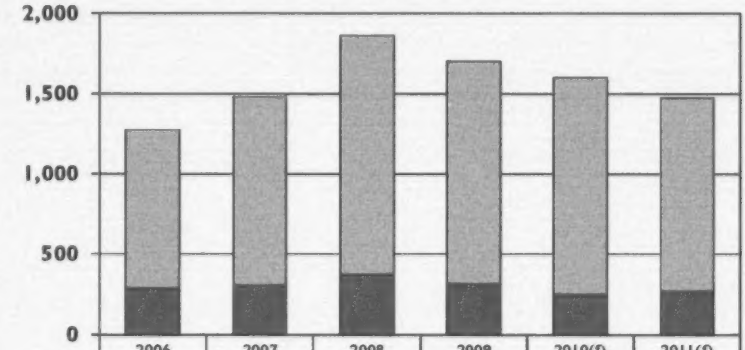
St. John's Area Housing Market Expected to Cool

The St. John's area housing market has been driven by positive consumer spending and growth in employment, income and population. These favourable trends are expected to continue in 2011, but recent price growth and an increasing supply of unsold homes will likely have a cooling effect over the next several months.

Despite low mortgage rates, many prospective buyers remain sensitive to the considerable price growth that has occurred in this market in recent years. From an overall historical perspective, the outlook for the St. John's area housing market is strong, but recent record housing market activity will likely go unmatched in 2011.

Figure 1

New Home Demand Cools
Housing Starts- St. John's Region



	2006	2007	2008	2009	2010(f)	2011(f)
Singles	985	1,174	1,485	1,385	1,350	1,200
Multiples	290	306	378	318	250	275

Source: CMHC

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Economic Trends

Local Economy

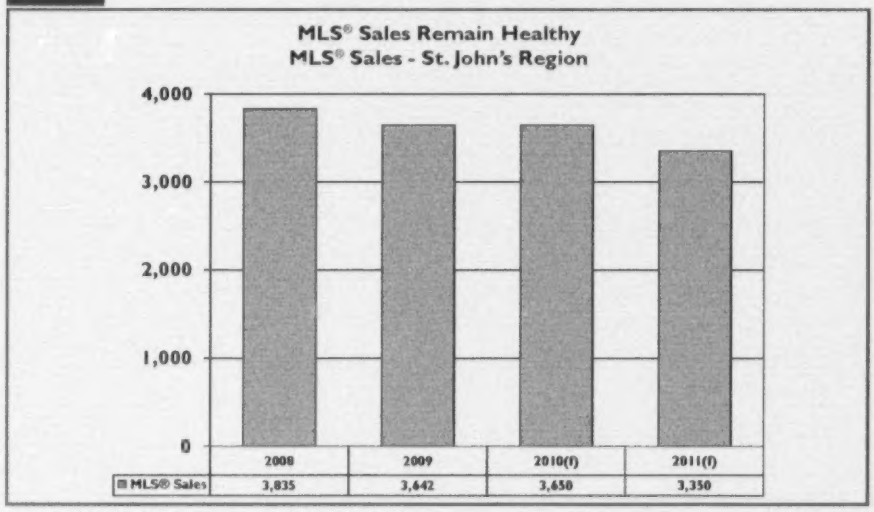
Energy and mining development will continue to be the main source for future economic growth. Several major capital projects will continue to inject stimulus into the local economy and contribute to a positive outlook. Consumers also remain a key component for economic growth over the forecast period. Provincially, expect 3.9 per cent GDP growth in 2010 and 3.0 per cent in 2011.

Growth in commodity prices has also provided a lift to mining companies in the interior of the province, as production has begun to return to higher levels. Stronger income growth has also helped support consumer spending, as well as the stronger than expected level of housing activity this year.

The fishing industry will continue to impact Newfoundland and Labrador's rural economies, but population losses at the provincial level will moderate over the forecast period, as a result of improving economic conditions for St John's. It is also expected that growing demand from seniors and a tighter rental market will limit declines in multiple construction activity over the forecast period.

Natural declines in offshore oil production will restrain GDP growth in 2010-2011. Increased royalties received by the province will offset the effects of production declines, thereby contributing to economic growth. Additional growth will be spurred by the province's infrastructure spending program. It is also expected that a number of additional resource related projects will add to economic growth beginning in late 2011.

Figure 2



Source: CREA, CMHC forecast 2009, 2010
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Note: Eastern Region (St. John's) MLS® data unavailable prior to 2008 calendar year

Mortgage Rates

On September 8, the Bank of Canada increased the Target for the Overnight Rate from 0.75 per cent to 1.00 per cent. This is the third 25 basis point increase since April 2010, when the rate was at a historical low of 0.25 per cent. With the overnight rate expected to remain flat, mortgage rates, particularly short term mortgage rates and variable mortgage rates, are also expected to remain steady at current levels.

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Resale Market

MLS® Sales Will Remain Healthy

With record sales levels posted during the past several years, the St. John's area resale market is expected to cool slightly, but remain healthy in terms of total unit sales. Accordingly, the forecast calls for MLS® sales of 3,650 units this year, with 3,350 sales expected in 2011. With most newly built homes selling through the MLS® system, residential construction activity will continue to have a positive impact on total MLS® sales. The surge of 16.7 per cent in average prices in 2009 was certainly buoyed by the increase in new construction. Housing market activity was robust

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in 2009 but remained in a balanced state during most of the year. With demand expected to slow over the forecast period, unit sales will remain historically strong, but will not match recent record levels. While becoming increasingly favourable to buyers, less active resale market conditions in 2010 have proven challenging for some sellers, as they have begun to receive offers well below list price. With increased inventory now available to choose from, many buyers have fared well in their search for an existing home and in some cases have been shifting away from higher-priced homes. The price premium on a new home versus an existing home has resulted in increased first-time buyer activity within the lower-priced resale market – a trend that is expected to continue despite the anticipation of prices rising only marginally going forward.

Buyers Resale Market

Historically, the St. John's area resale market tends to be balanced, with buyers and sellers equally aligned. However, stimulus from capital project announcements and positive net-migration to the St. John's region positioned the market to favour sellers in 2008. The onset of global economic uncertainty in the fall of 2008 caused a very strong local sellers' market to weaken from its third quarter peak and the market subsequently transitioned to buyers' conditions by the end of the year. From there, it fluctuated in and out of buyers', balanced and sellers' conditions throughout 2009 and into 2010.

In terms of unit sales, the market was strong this past winter and into the spring season with activity up approximately 25 per cent. The rapid rise in sales, however, was quickly offset by a hefty increase in new and active listings throughout the summer months. The higher number of listings has resulted in fewer multiple offers and sales prices coming in at approximately 98 per cent of asking price. Inventory has increased ten per cent and listings have stayed on the market 62 days on average. Prices peaked during the second quarter of 2010 and have been flat since then. The sales-to-active listings ratio fluctuated in and out of buyers' and balanced conditions throughout the first half of 2010, but has favoured buyers so far in the second half of the year. The combined impact of these variables will result in the local resale market remaining in buyers' market conditions for the remainder of this year and into 2011.

Price Growth will Moderate

With the local resale market returning to buyers' conditions, the expectation is for subdued price growth in 2011. After two years of very strong growth, the average MLS® house price is forecast to be $247,500 for 2010, an increase of 13 per cent over 2009's average of $218,862. The average price will see marginal growth of three per cent in 2011 as prices peak at around the $255,000 mark. Once again, active move-up buyers will cause the two-storey home category to lead growth over the forecast period. Recent price growth in two-storey homes, however, will continue to impact the demand from first-time buyers for this style of home. Bungalows, semi-detached and row house units will remain attractive homeownership alternatives for this group of buyers.

New Home Market

New Home Demand will Cool

Although new home demand is expected to cool, it will still be supported by economic and demographic trends, capital project activity, as well as continued population growth within the St. John's region. Recent activity levels, however, will not continue and the market will take a breather in the coming months. Also, record prices will restrain the level of price growth in the new home market for the remainder of this year and next. As a result, new home prices will end 2010 up about 14 per cent to $320,000 and reach $328,250 in 2011. Total housing starts are forecast to decrease six per cent this year to 1,600 units within the St. John's region, with construction activity decreasing approximately eight per cent in 2011 to 1,475 units. Although lower, activity will still be well above the historical average of 1,054 units.

Flat Multiple Starts Activity

The multiple unit segment of the market is expected to see 250 units break ground this year and increase to 275 units in 2011. With rising construction costs and longer build times, the number of new single-detached homes with basement apartments continues to slow as buyers opt for less expensive single unit homes or choose to put the apartment in themselves. The mid-priced local condo market has developed slower than expected, but smaller households and a rapidly aging population continue to support demand for these units in St. John's. The expectation for some downsizing households is to sell their home and buy a condo without a mortgage. Recent condo price growth, however, has made this goal much more

difficult for some to attain. Despite considerable house price growth, robust income growth will continue to drive first-time buyer demand for new semi-detached and row housing. Going forward, current single-detached house prices should also create additional demand amongst lower income buyers in general for these relatively lower-priced housing options.

Rental Market

Vacancy Rate will Remain Low

Several factors will keep the vacancy rate low this year and next. With the recent growth in house prices, the movement of renters to homeownership will remain low. Also, increased economic activity will continue to have a positive impact on the in-migration of workers to the St. John's area from other areas of the province. Memorial University and local colleges will continue to draw students, who traditionally rent within the region as well.

Investment in new multi-unit apartment developments is expected and will begin to increase the supply of apartments in 2011. However, before a significant increase in large-scale developments can occur in the local market, average rents will need to rise in order to offset the costs of development and construction. Accordingly, the vacancy rate for surveyed structures containing three or more rental units (two-apartment homes excluded) is forecast to remain low at one per cent in 2010 and rise marginally to 1.3 per cent in 2011. With the vacancy rate remaining very low, expect demand to push surveyed average two-bedroom monthly rents to $725 by the end of this year and to $775 in 2011.

Forecast Summary St. John's CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	NA	3,835	3,642	3,650	0.2	3,350	-8.2
MLS® New Listings	NA	5,783	5,799	6,350	9.5	6,000	-5.5
MLS® Average Price ($)	NA	187,571	218,862	247,500	13.1	255,000	3.0
New Home Market							
Starts:							
Single-Detached	1,174	1,485	1,385	1,350	-2.5	1,200	-11.1
Multiples	306	378	318	250	-21.4	275	10.0
Starts - Total	1,480	1,863	1,703	1,600	-6.0	1,475	-7.8
Average Price ($):							
Single-Detached	211,123	230,473	281,803	320,000	13.6	328,250	2.6
Median Price ($):							
Single-Detached	189,900	215,372	260,000	295,250	13.6	303,000	2.6
New Housing Price Index (% chg.)	5.0	19.6	11.5	6.0	-	3.0	-
Rental Market							
October Vacancy Rate (%)	2.6	0.8	0.9	1.0	-	1.3	-
Two-bedroom Average Rent (October) ($)	614	630	677	725	-	775	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	94,500	98,500	99,200	101,300	2.1	104,000	2.7
Employment Growth (%)	1.2	4.2	0.7	2.3	-	2.7	-
Unemployment rate (%)	6.9	7.8	8.3	8.0	-	7.5	-
Net Migration	160	1,386	2,278	2,294	0.7	2,100	-8.5

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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